

To: homebythehills[homebythehills@comcast.net]
From: Frank
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Is North Dakota's economy really oil-rigged?

The nation's 2nd largest producer of oil is taking a hit from the decline in production.

**Elaine Pofeldt, special to CNBC.com
7 Hours AgoCNBC.com**

With crude oil prices down sharply from last year and the oil glut at risk of increasing, private security consultant Charles Clifton's phone has been ringing. His company, Knightsbridge Risk Management, a private security firm in Dallas that serves the oil and gas industry, is getting calls from companies that want to plan ahead in case they shut down drilling operations in North Dakota and the Bakken shale formation.

The oil producers want to prevent theft and vandalism of the drilling sites—often a problem when operations have abruptly come to a halt in other states, said Clifton, manager for The Americas for Knightsbridge. Workers and subcontractors who have suddenly been left with no income have sometimes retaliated by stealing or damaging equipment, from well caps to bulldozers, he said.

"There are a lot of rigs being parked. Someone's got to sit on them 24 hours a day." -Charles Clifton, Security consultant, Knightsbridge Risk Management

"This time we're being brought in ahead of time," said Clifton. "There's a discussion about shutting down this site six months from now and what can we do now to prevent that from happening this time."

He is working on about half a dozen preliminary consulting cases in North Dakota and one in Montana. He also has a couple of security guards stationed at sites in

Wyoming and Colorado. "There are a lot of rigs being parked," he said, adding, "Someone's got to sit on them 24 hours a day."

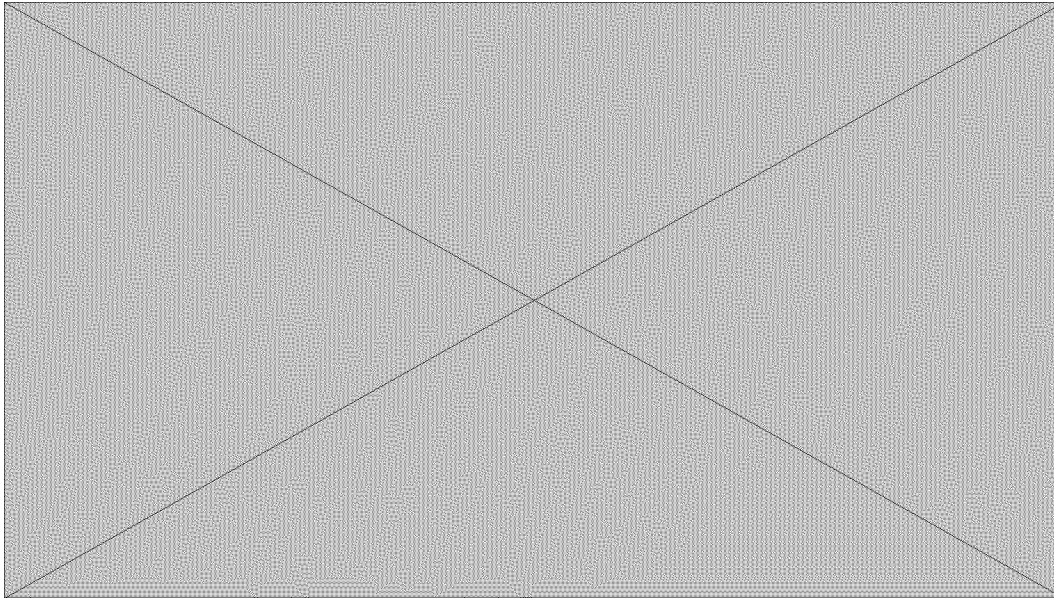
Clifton could find himself even busier helping companies in the region in coming months. After staging a significant rally since U.S. crude tested the low \$40s earlier this year, WTI crude has traded in a narrow range, and there is potential for more downside—Saudi Arabia recently said it plans to raise output to new highs. On Wednesday, U.S. crude settled at \$60.27.

The ongoing pressure since oil prices dropped sharply last fall is squeezing drilling operations in North Dakota and the Bakken Formation. The number of active rigs in North Dakota was 77 as of June 12, down from 145 rigs the same day last year. American Eagle Energy, a Colorado firm drilling in the Bakken Formation, filed in May for Chapter 11 bankruptcy protection in Denver.

Still, many players in the region have the strength to withstand the lower prices, according to Wayne Wilson, who specializes in calculating the value of oil and gas assets as managing director with HSSK, a business valuation and litigation consulting firm that has offices in Houston, Dallas and Austin. Shale oil producers that are currently producing should generally be able to survive the next 48 months unless they have an unfavorable debt structure, he said.

"It's not a situation where you're going to see a drying up, but you're going to see a slowing," explained Wilson.

One thing that is helping many producers is using new technologies to improve the efficiency of their operations and to lower labor costs, he said, adding, "That allows you to reduce some of the associated costs."



Daniel Acker | Bloomberg | Getty Images

Liquid propane is transloaded from a truck to a railcar at the Red River Supply rail yard in Williston, North Dakota.

Economic ripple effect

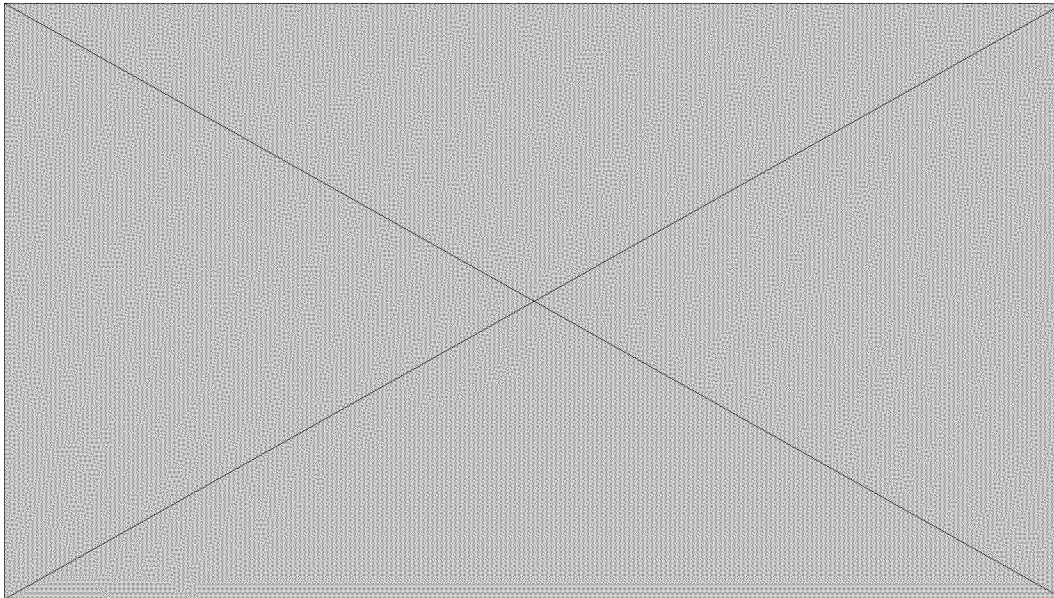
Lower prices are having a ripple effect on North Dakota's economy, which benefited from an employment boom in recent years because of growth in the oil and gas industry. The state's unemployment rate, while still low, increased from 2.8 percent in November to 3.1 percent in preliminary statistics for May, compared to 5.1 percent for the U.S. population, according to the U.S. Bureau of Labor Statistics.

"The bigger problem is going to be the knock-on effect," said oil and gas expert Jeffery Born, professor of finance and group coordinator at D'Amore-McKim School of Business at Northeastern University in Boston.

North Dakota was the second-largest producer of crude oil in the nation in 2013, after Texas, according to most recent published data from the U.S. Energy Information Administration.

"The state of North Dakota is quite dependent on energy-related activity as a source of GDP," Born said. The real GDP in North Dakota grew 6.2 percent in 2014, compared to 2.2 percent for the U.S. as a whole, driven by the oil and gas industry, according to data released June 10 by the Bureau of Economic Analysis.

The state itself and its revenue are very dependent on taxes they get from extraction and other type of fees related to energy production. A study at North Dakota State University released in March found that the oil and gas industry generated \$2.9 billion in gross production and severance taxes in 2013. Severance taxes are imposed on wells that remove nonrenewable resources, such as crude oil.



Getty Images

A gas flare is seen at an oil well site outside Williston, North Dakota.

But some businesses that can help operators improve their efficiency are benefiting from the lower prices. Many oil producers are turning to multi-well padding, said Wilson. This is an approach that lets them drill multiple wells on a single location. Many purchased technology that enables it. "They are continuing to look at new technology," Wilson said.

Other companies that help oil producers find efficiencies are also seeing an uptick.

"When oil prices went down, we took a number of orders," said George Boyajian, vice president of business development at Primus Green Energy, based in Hillsborough, New Jersey, which has a client in the Bakken shale formation.

Primus Green Energy makes a technology that allows oil field operators to reduce flaring, a process in which gases are piped to a remote location and burned in an

open flame, because these gases are not cost-effective to sell or for other reasons. Its technology can turn flared gas into a range of liquid end products, such as gasoline.

"They see our system as a way to monetize an underutilized asset," said Boyajian.

How long oil producers will remain on the hunt for new efficiencies depends, in part, on what happens in Saudi Arabia.

"This is a big poker game," said Born.

—By Elaine Pofeldt, special to CNBC.com